I.T LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 999)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2016

FINANCIAL HIGHLIGHTS

- Total turnover of the Group increased by 7.4% to HK$3,643.2 million.
- Total retail sales in Hong Kong decreased by 2.0% to HK$1,540.2 million against a reduction in total trading area of 2.7%. Comparable store sales growth rate in Hong Kong registered at -0.9% (FY15/16: -0.9%).
- Total retail sales in Mainland China increased by 14.0% to HK$1,523.7 million on the back of double-digit percentage growth in sales area and positive comparable store sales growth rate at 4.6% (FY15/16: 5.9%).
- Benefitting from the increase in inbound tourist traffic flow, our Japan segment continued to outperform with total retail sales landed at HK$326.7 million or JPY4,496.3 million, representing 46.9% increase in Hong Kong Dollar or 28.7% increase in base currency from FY15/16.
- Total retail sales in Macau decreased by 9.2% to HK$91.7 million.
- The gross profit of the Group increased by 9.0% to HK$2,209.2 million at gross profit margin of 60.6% (FY15/16: 59.7%).
- The Group recorded a net profit of HK$39.1 million compared to a net loss of HK$31.0 million in FY15/16.
- Net profit of the Group increased from HK$35.8 million (if the exceptional non-recurring foreign exchange loss of HK$66.8 million as a result of the conversion of the Group's RMB fixed deposits into Hong Kong Dollar in August 2015 is excluded) in August 2015 to HK$39.1 million in August 2016, representing an increase of 9.2%.
- Basic earnings per share was 3.2 HK cents (FY15/16: Basic loss per share of 2.6 HK cents).

The board of directors (the "Board") of I.T Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 August 2016, prepared on the basis set out in Note 1, together with the comparative figures for the corresponding period, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Six months ended 31 August 2016 (Unaudited) HK$'000**	2015 (Unaudited) HK$'000
Turnover	2	**3,643,200**	3,392,452
Cost of sales	4	**(1,434,007)**	(1,366,399)
Gross profit		**2,209,193**	2,026,053
Other losses, net	3	**(5,240)**	(63,540)
Operating expenses	4	**(2,098,050)**	(1,935,525)
Other income	5	**19,077**	17,654
Operating profit		**124,980**	44,642
Finance income	6	**6,607**	32,221
Finance costs	6	**(37,789)**	(40,938)
Share of losses of joint ventures		**(3,897)**	(13,862)
Profit before income tax		**89,901**	22,063
Income tax expense	7	**(50,838)**	(53,076)
Profit/(loss) for the period		**39,063**	(31,013)
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Currency translation differences		**1,156**	(44,795)
Cash flow hedge recognised as finance costs		**28,158**	31,568
Fair value changes on cash flow hedge, net of tax		**36**	15,766
Total other comprehensive income for the period		**29,350**	2,539
Total comprehensive income/(loss) for the period		**68,413**	(28,474)
Profit/(loss) attributable to:			
– Equity holders of the Company		**38,633**	(31,252)
– Non-controlling interests		**430**	239
		39,063	(31,013)
Total comprehensive income/(loss) attributable to:			
– Equity holders of the Company		**67,783**	(28,709)
– Non-controlling interests		**630**	235
		68,413	(28,474)
Earnings/(loss) per share attributable to equity holders of the Company for the period (expressed in HK cent per share)			
– basic	8	**3.2**	(2.6)
– diluted	8	**3.1**	(2.6)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 31 August 2016 (Unaudited) HK$'000**	As at 29 February 2016 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, furniture and equipment		**812,113**	856,606
Intangible assets		**339,401**	345,633
Investments in and loans to joint ventures		**136,510**	139,278
Rental deposits		**312,670**	296,483
Prepayments for non-current assets		**37,669**	15,675
Deferred income tax assets		**142,705**	129,594
		1,781,068	1,783,269
Current assets			
Inventories		**1,527,864**	1,390,974
Trade and other receivables	10	**185,810**	232,423
Amounts due from joint ventures		**51,906**	52,880
Prepayments and other deposits		**365,615**	370,735
Current income tax recoverable		**9,582**	1,603
Cash and cash equivalents		**1,766,371**	1,967,111
		3,907,148	4,015,726
LIABILITIES			
Current liabilities			
Borrowings	12	**(268,096)**	(273,396)
Trade payables	11	**(464,759)**	(433,130)
Accruals and other payables		**(609,238)**	(649,489)
Derivative financial instruments		**–**	(42)
Amounts due to joint ventures		**(26,299)**	(33,863)
Current income tax liabilities		**(131,265)**	(68,406)
		(1,499,657)	(1,458,326)
Net current assets		**2,407,491**	2,557,400
Non-current liabilities			
Borrowings	12	**(1,155,100)**	(1,262,462)
Accruals		**(7,347)**	(8,583)
Derivative financial instruments		**(132,160)**	(132,196)
Deferred income tax liabilities		**(12,738)**	(40,636)
		(1,307,345)	(1,443,877)
Net assets		**2,881,214**	2,896,792
EQUITY			
Capital and reserves			
Share capital		**121,149**	121,198
Reserves		**2,757,677**	2,773,836
Non-controlling interests		**2,388**	1,758
Total equity		**2,881,214**	2,896,792

NOTES

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 31 August 2016 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

This condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 29 February 2016, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies applied and methods of computation used in the preparation of this interim financial report are consistent with those used in the annual financial statements for the year ended 29 February 2016, except for the adoption of the revised standards and amendments issued by the HKICPA.

Taxes on income for the six months ended 31 August 2016 are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments are mandatory for the financial year beginning 1 March 2016 and have no material impact to the Group.

HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendment)	Accounting for Acquisition of Interest in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
HKAS 1 (Amendment)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements
Annual Improvements Project	Annual Improvement 2012-2014 Cycle

The following new standards and amendments have been issued but are not effective for the financial year beginning 1 March 2016 and have not been early adopted:

HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 16	Leases

2. TURNOVER AND SEGMENT INFORMATION

	Six months ended 31 August	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Turnover		
– Sales of fashion wears and accessories	**3,643,200**	3,392,452

The chief operating decision maker ("CODM") has been identified as the executive directors that makes strategic decisions. The CODM reviews the internal reporting of the Group in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The CODM considers the business from geographic perspective and assesses the performance of the geographical segment based on a measure of profit before impairment of goodwill, intangible assets and property, furniture and equipment, depreciation of property, furniture and equipment, amortisation of intangible assets, share of losses of joint ventures and income tax expense ("EBITDA"). Finance income, finance costs and loss arising from conversion of Chinese Renminbi fixed deposit into Hong Kong Dollar are not allocated to operating segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. The information provided to the CODM is measured in a manner consistent with that in the financial statements.

Segment assets exclude deferred income tax assets, current income tax recoverable and investments in and amounts due from joint ventures which are managed on a central basis.

The segment information provided to the CODM for the reportable segments is as follows:

	(Unaudited)											
	Hong Kong Six months ended 31 August		Mainland China Six months ended 31 August		Japan Six months ended 31 August		Macau Six months ended 31 August		Other Six months ended 31 August		Total Six months ended 31 August	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Turnover	**1,556,086**	1,585,955	**1,598,081**	1,426,259	**348,490**	237,697	**91,704**	100,983	**48,839**	41,558	**3,643,200**	3,392,452
EBITDA	**(67,925)**	(31,689)	**152,995**	149,208	**150,034**	99,004	**31,718**	35,867	**13,177**	1,568	**279,999**	253,958
Depreciation, amortisation and impairment	**(72,093)**	(59,686)	**(70,998)**	(70,992)	**(5,503)**	(4,280)	**(4,974)**	(4,116)	**(1,451)**	(3,426)	**(155,019)**	(142,500)
Segment (loss)/profit	**(140,018)**	(91,375)	**81,997**	78,216	**144,531**	94,724	**26,744**	31,751	**11,726**	(1,858)	**124,980**	111,458
Loss arising from conversion of Chinese Renminbi fixed deposit into Hong Kong Dollar											**–**	(66,816)
Operating profit											**124,980**	44,642
Finance income											**6,607**	32,221
Finance costs											**(37,789)**	(40,938)
Share of losses of joint ventures											**(3,897)**	(13,862)
Profit before income tax											**89,901**	22,063

	Hong Kong HK$'000	**Mainland China** HK$'000	**Japan** HK$'000	**Macau** HK$'000	**Other** HK$'000	**Total** HK$'000
Total segment assets						
As at 31 August 2016	**2,491,688**	**2,242,166**	**489,755**	**82,396**	**41,508**	**5,347,513**
As at 29 February 2016	2,750,970	2,219,089	379,368	64,071	62,142	5,475,640

Reportable segments' assets are reconciled to total assets as follows:

	As at 31 August 2016 (Unaudited) HK$'000	As at 29 February 2016 (Audited) HK$'000
Segment assets for reportable segments	**5,306,005**	5,413,498
Other segments assets	**41,508**	62,142
	5,347,513	5,475,640
Unallocated:		
Deferred income tax assets and current income tax recoverable	**152,287**	131,197
Investments in and amounts due from joint ventures	**188,416**	192,158
	5,688,216	5,798,995

3. OTHER LOSSES, NET

	Six months ended 31 August	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fair value gains from derivative financial instruments		
– foreign currency swap contract	**–**	30
– interest rate swap contract	**42**	548
Net exchange (losses)/gains	**(5,282)**	2,698
Loss arising from conversion of Chinese Renminbi fixed deposit into Hong Kong Dollar (a)		
– fair value losses from forward exchange contracts	**–**	(18,131)
– exchange losses	**–**	(48,685)
	(5,240)	(63,540)

Note:

(a) During the six months ended 31 August 2015, due to unexpected high volatility of exchange rate of Chinese Renminbi against Hong Kong Dollar, the Group had converted RMB1,187,000,000 fixed deposits into Hong Kong Dollar which resulted in fair value losses from forward exchange contracts and exchange losses of HK$18,131,000 and HK$48,685,000 respectively.

4. EXPENSES BY NATURE

	Six months ended 31 August	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**1,362,067**	1,337,630
Provision for write-downs of inventories to net realisable value	**44,455**	16,845
Employment costs (including directors' emoluments)	**628,135**	563,764
Operating lease rentals of premises		
– minimum lease payments	**749,664**	722,010
– contingent rents	**98,917**	71,487
Building management fee	**115,779**	105,037
Advertising and promotion costs	**53,458**	65,651
Commission expenses	**39,227**	32,449
Bank charges	**40,357**	37,422
Utilities expenses	**30,711**	32,511
Freight charges	**15,889**	15,161
Depreciation of property, furniture and equipment	**132,799**	140,773
Impairment of/(reversal of) property, furniture and equipment	**15,304**	(5,061)
Reversal of onerous contract provision	**(870)**	(22,869)
Impairment of intangible assets	**–**	143
Loss on disposals of property, furniture and equipment	**3,444**	4,230
Licence fees (included in operating expenses)		
– amortisation of licence rights	**–**	1,856
– contingent licence fees	**13,919**	8,241
Amortisation of intangible assets (excluding license fees)	**6,916**	4,789
Provision for impairment of amount due from a joint venture	**625**	2,485
Other expenses	**181,261**	167,370
Total	**3,532,057**	3,301,924
Representing:		
Cost of sales	**1,434,007**	1,366,399
Operating expenses	**2,098,050**	1,935,525
	3,532,057	3,301,924

5. OTHER INCOME

	Six months ended 31 August	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Government grants	**14,214**	11,826
Others	**4,863**	5,828
	19,077	17,654

6. FINANCE COSTS, NET

	Six months ended 31 August	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from		
– bank deposits	**4,993**	31,399
– amounts due from joint ventures	**428**	427
– others (i)	**1,186**	395
Finance income	**6,607**	32,221
Interest expense on borrowings wholly repayable within five years	**(35,021)**	(39,319)
Net foreign exchange transaction gain	**25,390**	29,949
Transfer from hedging reserve		
– interest rate and currency swaps: cash flow hedge	**(28,158)**	(31,568)
Finance costs	**(37,789)**	(40,938)
Net finance costs	**(31,182)**	(8,717)

Note:

(i) These represent the interest arisen from the unwinding of discount on financial assets recognised at amortised cost.

7. INCOME TAX EXPENSE

The Company is exempted from income taxes in Bermuda until March 2035. The Company's subsidiaries established in the British Virgin Islands are incorporated under the BVI Business Companies Act of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes.

Hong Kong profits tax has been provided at the rate 16.5% (six months ended 31 August 2015: 16.5%) on the estimated assessable profits of the Group's operation in Hong Kong.

Mainland China enterprise income tax has been provided at the applicable rate of 25% (six months ended 31 August 2015: 25%) on the estimated assessable profits of the Group's operations in Mainland China.

Japan Corporate Income Tax has been provided at the applicable rate of 35.36% (six months ended 31 August 2015: 37.11%) on the estimated assessable profits of the Group's operations in Japan.

Macau Complementary (Corporate) tax has been provided at the applicable rate of 12% (six months ended 31 August 2015: 12%) on the estimated assessable profits in excess of HK$582,000 (approximately MOP600,000) of the Group's operations in Macau.

Taiwan profits tax has been provided at the rate of 17% (six months ended 31 August 2015: 17%) on the estimated assessable profits of the Group's operations in Taiwan.

The applicable US enterprise income tax rate for subsidiary operating in the United States of America is 45.03% (six months ended 31 August 2015: 45.03%).

The amounts of income tax charged to the condensed consolidated interim statement of comprehensive income represent:

	Six months ended 31 August	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current income tax		
– Hong Kong profits tax	**9,473**	4,718
– Mainland China enterprise income tax	**27,616**	20,201
– Overseas income tax	**54,415**	40,885
– Over-provision in prior year	**(1,954)**	–
Deferred income tax	**(38,712)**	(12,728)
	50,838	53,076

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended 31 August 2016 is 51.0% (six months ended 31 August 2015: 41.7%). The increase is mainly caused by a change of distribution of profits of the Group's entities operating in different locations.

8. EARNINGS/(LOSS) PER SHARE

Basic

The calculation of basic earnings/(loss) per share for the period is based on the consolidated profit/(loss) attributable to equity holders of the Company and on the weighted average number of ordinary shares in issue during the period.

	Six months ended 31 August	
	2016	2015
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to equity holders of the Company (HK$'000)	**38,633**	(31,252)
Weighted average number of ordinary shares in issue ('000)	**1,211,642**	1,225,434
Basic earnings/(loss) per share (HK cent)	**3.2**	(2.6)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Shares issuable under the share option schemes are the only dilutive potential ordinary shares. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average daily quoted market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 31 August	
	2016	2015
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to equity holders of the Company (HK$'000)	**38,633**	(31,252)
Weighted average number of ordinary shares in issue ('000)	**1,211,642**	1,225,434
Adjustments for share options ('000)	**22,261**	29,405
Weighted average number of ordinary shares for diluted earnings per share ('000)	**1,233,903**	1,254,839
Diluted earnings/(loss) per share (HK cent)	**3.1**	(2.6)

Diluted loss per share for the six months ended 31 August 2015 was the same as the basic loss per share since the share options had anti-dilutive effect.

9. DIVIDENDS

A final dividend relating to the year ended 29 February 2016 amounting to HK$96,175,000 was paid in August 2016. The remaining amount of HK$5,590,000 is included in other payables.

The Board does not declare the payment of an interim dividend for the six months ended 31 August 2016 (six months ended 31 August 2015: Nil).

10. TRADE AND OTHER RECEIVABLES

	As at 31 August 2016 (Unaudited) HK$'000	As at 29 February 2016 (Audited) HK$'000
Trade receivables	**179,857**	228,208
Less: provision for impairment of trade receivables	**(1,402)**	(1,553)
Trade receivables – net	**178,455**	226,655
Interest receivables	**692**	902
Other receivables	**6,663**	4,866
Trade and other receivables	**185,810**	232,423

The Group's sales are mainly settled by cash or credit/debit cards. The Group grants to a limited number of corporate customers credit periods ranging from 30 to 60 days.

The ageing analysis of the trade receivables is as follows:

	As at 31 August 2016 (Unaudited) HK$'000	As at 29 February 2016 (Audited) HK$'000
0 to 30 days	**146,961**	176,678
31 to 60 days	**25,698**	45,862
61 to 90 days	**4,798**	3,923
Over 90 days	**2,400**	1,745
	179,857	228,208

The carrying amounts of trade and other receivables approximate their fair values.

11. TRADE PAYABLES

The ageing analysis of trade payables based on invoice date is as follows:

	As at 31 August 2016 (Unaudited) HK$'000	As at 29 February 2016 (Audited) HK$'000
0 to 30 days	**284,418**	249,279
31 to 60 days	**99,865**	94,831
61 to 90 days	**35,030**	57,396
91 to 180 days	**23,857**	18,510
181 to 365 days	**7,847**	6,219
Over 365 days	**13,742**	6,895
	464,759	433,130

12. BORROWINGS

	As at 31 August 2016 (Unaudited) HK$'000	As at 29 February 2016 (Audited) HK$'000
Non-current borrowings		
– Bank borrowings	**123,957**	207,538
– Senior Notes (a)	**1,031,143**	1,054,924
	1,155,100	1,262,462
Current borrowings		
– Portion of bank borrowings due for repayment within one year	**179,646**	179,646
– Portion of bank borrowings due for repayment after one year which contain a repayable on demand clause	**88,450**	93,750
	268,096	273,396
	1,423,196	1,535,858

Movements in borrowings are analysed as follows:

	(Unaudited) HK$'000
Six months ended 31 August 2016	
As at 1 March 2016	**1,535,858**
Proceeds from borrowings	**–**
Repayments of borrowings	**(88,883)**
Exchange differences	**(23,779)**
As at 31 August 2016	**1,423,196**
Six months ended 31 August 2015	
As at 1 March 2015	1,736,239
Proceeds from borrowings	360,048
Repayments of borrowings	(512,529)
Exchange differences	(33,637)
As at 31 August 2015	1,550,121

The fair values of current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The effective borrowing cost was 4.8% (as at 29 February 2016: 5.1%) per annum.

Interest expense on borrowings for the six months ended 31 August 2016 is approximately HK$35,021,000 (six months ended 31 August 2015: HK$39,319,000).

Note:

(a) On 15 May 2013, the Company issued senior notes, with an aggregate nominal value of RMB1,000,000,000 (equivalent to HK$1,264,500,000) at par value (the "Senior Notes"), which bear interest at 6.25% per annum and the interest is payable semi-annually in arrears. The net proceeds, after deducting the direct issuance costs, amounted to approximately RMB987,395,936 (equivalent to HK$1,248,606,276). The Senior Notes will mature on 15 May 2018 and are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the six months ended 31 August 2014, the Group has purchased Senior Notes in the principal amount of RMB106,000,000, representing approximately 10.6% of the Senior Notes in the principal amount of RMB1,000,000,000 issued in May 2013. The purchased Senior Notes amounting to RMB106,000,000 during the six months ended 31 August 2014 was then duly cancelled pursuant to the terms and conditions of the Senior Notes. As at 31 August 2016 and 29 February 2016, the aggregate principal amount of the Senior Notes which remains outstanding and subject to the terms of the indenture governing the Senior Notes is RMB894,000,000.

INTERIM DIVIDEND

The business environment would likely continue to be a difficult one, the Board does not declare the payment of an interim dividend for the six months ended 31 August 2016 (six months ended 31 August 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

(a) Group

The operating environment of the fashion retail business in the first half of the fiscal year continued to be suppressed by the same adverse economic factors as in the previous year. In the Hong Kong segment, particularly, local consumption remained soft as a result of the strength of the Hong Kong Dollar, which not only encouraged outbound spending but also discouraged inbound tourist traffic growth. The overall weakness in consumer spending momentum was documented by the value index of retail sales in wearing apparel (provided by the Census and Statistics Department of Hong Kong): such negative monthly performances were witnessed in five months of the six-month period ending with August 2016. Other external economic conditions related to cost inflation in operating retail channels, such as rental and staff costs, also remained negative and continued to constitute the most challenging area of our business, placing further downward pressure on the Group's profitability in the region. At this juncture, the Group responded by scaling back its retail network in the region with the twin objectives of mitigating the cost pressure and enhancing sales efficiency.

In contrast, our expansion in Mainland China continued irrespective of moderate economic developments and volatile financial markets, impacting overall consumer appetite considerably. As of the period end, our total sales area in Mainland China has increased by a double-digit percentage, compared to last period's. We have also entered into new cities such as Changchun and Nanning. Today, we have a diversified retail presence spanning across twenty-two cities in Mainland China. Our China operations have achieved another period of creditable growth through a combination of innovative product designs and a strong portfolio of the latest and most distinctive international fashion products, alongside inspirational marketing initiatives to enrich the content of our new-season collections. Similarly, we also achieved sustainable growth in revenue and increased profitability in our Japan segment. These enhancements in financial metrics reflected the success of our collections of all brands within the A Bathing Ape group.

Turnover of the Group increased by 7.4% over last period to HK$3,643.2 million. Net profit of the Group increased from HK$35.8 million (if the exceptional non-recurring foreign exchange loss of HK$66.8 million as a result of the conversion of the Group's RMB fixed deposits into Hong Kong Dollar in August 2015 is excluded) in August 2015 to HK$39.1 million in August 2016, representing an increase of 9.2%. On a reporting basis, net profit of the Group landed at HK$39.1 million, compared to a net loss of HK$31.0 million in the corresponding period in 2015.

Turnover by Market

Turnover generated by our Hong Kong segment declined 1.9%, to HK$1,556.1 million. This is a rather satisfactory development against a reduction in total trading area of 2.7%. Hong Kong contributed 42.7% of the total turnover (FY15/16: 46.7%).

The Group has extended its foothold in Mainland China further in both new and existing cities. Along with positive comparable store sales growth recorded for the period, our Mainland China operations have achieved another period of noticeable growth, of 12.0%, to HK$1,598.1 million. It contributed 43.9% to total Group turnover and has become the largest revenue contributor (FY15/16: 42.0%).

Overall dynamic behind the sales growth in our Japan segment was very similar to what was seen in the first quarter. More specifically, we continued to witness overwhelming responses to the collections of our A Bathing Ape brand alongside consistent positive growth in inbound tourist flow. Turnover of our Japan businesses increased by 28.4% in local currency, to JPY4,796.3 million, and there was an increase of 46.6% in Hong Kong Dollar, to HK$348.5 million. The Japan segment accounted for 9.6% of total Group turnover (FY15/16: 7.1%).

Breakdown of turnover by region of operation:

	Turnover Six months ended 31 August			% of Turnover Six months ended 31 August	
	2016	2015		**2016**	2015
	HK$ million	HK$ million	**Change**		
Hong Kong	**1,556.1**	1,586.0	**-1.9%**	**42.7%**	46.7%
Retail sales only	***1,540.2***	*1,571.4*	***-2.0%***		
Mainland China	**1,598.1**	1,426.3	**+12.0%**	**43.9%**	42.0%
Retail sales only	***1,523.7***	*1,336.3*	***+14.0%***		
Japan	**348.5**	237.7	**+46.6%**	**9.6%**	7.1%
Retail sales only	***326.7***	*222.4*	***+46.9%***		
Macau	**91.7**	101.0	**-9.2%**	**2.5%**	3.0%
Other	**48.8**	41.5	**+17.6%**	**1.3%**	1.2%
Total	**3,643.2**	3,392.5	**+7.4%**	**100.0%**	100.0%

Brand Mix

The Group is engaged in the distribution and management of over 300 of the latest and most distinctive fashion brands, each of which retains its own unique identity while complementing the others well. Notwithstanding that our brands have strong recognition in the fashion communities across our operating regions, we continue to utilise our strong capability to lead and interpret fashion trends. We persistently upgrade the assortments of the international brands segment of our portfolio and concurrently innovate the fashion concepts for our in-house brands segment. We are gratified that the efforts and investments we have devoted to our brands have continually contributed to the advancement of our offerings. For the period under review, our in-house brands segment continued to represent the largest revenue contributor, landing at 58.2% (FY15/16: 56.8%).

Breakdown of retail sales by brand category:

	Retail Sales Six months ended 31 August			% of Retail Sales Six months ended 31 August	
	2016	2015		**2016**	2015
	HK$ million	HK$ million	**Change**		
In-house brands	**2,055.0**	1,858.1	**+10.6%**	**58.2%**	56.8%
International brands	**1,456.3**	1,396.0	**+4.3%**	**41.2%**	42.7%
Licensed brands	**19.8**	18.5	**+7.0%**	**0.6%**	0.5%
	3,531.1	3,272.6	**+7.9%**	**100.0%**	100.0%

Dynamics in Margin and Cost

The Group managed to deliver another period of turnover growth at 7.4%, with gross profit also increasing by 9.0% over last period, along with an enhancement in gross margin of 0.9 percentage point to 60.6% amid difficult times and promotional headwinds. External market factors, such as the persistent cost inflation in operating retail channels, continued to place downward pressure on our profit margins, particularly in the Hong Kong segment. As a result, total operating cost ratio of the Group increased by 0.5 percentage point, to 57.6%. The rent-to-sales ratio (including rental charges and building management fees) remained flat at 26.5% for both periods. Staff cost-to-sales ratio (excluding share option expenses) increased from 16.3% to 17.0%.

An operating profit of HK$125.0 million was recorded for the six months ended 31 August 2016, representing an increase of 180.0% over the same period last year on a reported basis. If the aforementioned non-recurring foreign exchange loss of HK$66.8 million recorded in August 2015 is excluded, operating profit of the Group increased by 12.1%, to HK$125.0 million.

(b) Hong Kong

The overall market conditions have remained very challenging in the midst of an uncertain macroeconomic landscape and volatile financial markets, alongside geopolitical tensions around the regions. Currency headwinds continued to impact domestic spending momentum. The strength of the Hong Kong Dollar (which encouraged outbound spending), along with the devaluation of Chinese Renminbi (which discouraged our inbound tourist traffic growth), have further suppressed the already dampened consumer retail market. The cost of operating retail channels, particularly rental and staff costs, continued to rise. This was an area that placed significant pressure on the profitability of our Hong Kong segment and remained the most challenging area of our business.

Our turnover in Hong Kong declined by 1.9%, to HK$1,556.1 million, and retail sales also declined by 2.0%, to HK$1,540.2 million, with comparable store sales growth registered at -0.9%. These results are rather satisfactory against a reduction in total trading area of 2.7%, which reflected a level of gain in space productivity. Gross margin increased by 2.0 percentage points, to 58.9%: this uplift in gross margin was primarily a result of a more favorable mix of sales toward in-house brands, which generate higher margins in general, and a slight decrease in markdowns in relation to sales during the period. However, the enhancement in gross margin was not sufficient to completely offset a decline in efficiency measured by operating cost on sales, which increased by 4.6 percentage points to 67.8%. With all these trends pulled together, an operating loss of HK$140.0 million was recorded for the six months ended 31 August 2016 (FY15/16: an operating loss of HK$91.4 million).

(c) Mainland China

We are gratified with the progress in expansion that we have achieved so far this period because we have successfully capitalised on multiple growth opportunities and have extended our self-managed store presence to new cities such as Changchun and Nanning. Today, we have about 395 self-managed stores across twenty-two cities (with the total trading area increased by 23.6%) distributing or exclusively distributing a wide range of the latest and differentiated fashion products. This broad increase reaffirms our commitment to the region, where there is strong rising demand for fashion merchandise that is innovative in nature and of high quality, and should provide a favorable business environment for premium distinctive fashion retail players such as I.T in the long run.

Despite the general contraction in consumer appetite seen throughout the financial period, the Group has managed to deliver another period of noticeable growth in turnover by 12.0%, to HK$1,598.1 million. Total retail sales also increased by 14.0% to HK$1,523.7 million. The overall dynamic behind this sales development was attributable to not only the increase in total trading area but also a positive comparable store sales growth of 4.6% (FY15/16: 5.9%). Gross margin decreased by 0.6 percentage point, to 58.4%, primarily a result of exchange differences from the devaluation of Chinese Reminbi over the previous period. Operating cost on sales decreased by 0.2 percentage point, to 54.2%, and as a result, operating profit increased 4.8%, to HK$82.0 million.

(d) Japan

The overwhelming responses to our collections of all brands within the A Bathing Ape group were evident in the sales of our Japan businesses. The success of a wide range of inspirational marketing campaigns, which include multiple cross-border collaborative activities with numerous renowned fashion units around the world, has not only enhanced the equity and awareness of the brand but also driven additional sales growth. Moreover, the increase in inbound tourist traffic growth during the period has also supported our sales growth. Sales of our Japan business increased by 28.4%, to JPY4,796.3 million, whereas sales in Hong Kong Dollar terms grew by 46.6%, to HK$348.5 million. Gross margin landed at 71.6% (FY15/16: 70.5%). Operating profit increased by 52.6%, to HK$144.5 million, as a result of the dual effect of the enhancement in gross margin and a level of increased incidence of efficiency, measured by operating cost on sales.

(e) Macau

Although recent data has suggested a slowdown in the diminishment of the gaming sector in Macau, a form of recovery still lacks positive momentum. Total retail sales of our Macau segment decreased by 9.2%, to HK$91.7 million, during the financial period, with an operating profit amounting to HK$26.7 million, representing a decline of 15.8% over last period.

Share of Results of Joint Ventures

A share of loss of joint ventures amounting to HK$3.9 million was recorded for the six months ended 31 August 2016, representing a 71.9% decline in loss over last period. A key factor for the reduction in loss was that the effort devoted to strengthening our joint venture business model with Galeries Lafayette was beginning to pay off – the venture has achieved sales growth targets.

Inventory

The inventory turnover cycle of the Group increased to 187 days (FY15/16: 168 days). The Group made a strategic decision to increase purchase of inventory in order to boost sales growth during the financial period.

Cash Flows and Financial Position

The Group's cash and bank balances as at 31 August 2016 were HK$1,766.4 million compared to HK$1,967.1 million as at 29 February 2016 and its net cash balance amounted to HK$343.2 million (net cash is defined as cash and cash equivalents of HK$1,766.4 million less bank borrowings of HK$392.1 million and the Senior Notes of HK$1,031.1 million) versus HK$431.3 million as at 29 February 2016.

Cash inflow from operating activities for the six months ended 31 August 2016 amounted to HK$106.0 million (FY15/16: HK$70.7 million).

Liquidity and Banking Facilities

As at 31 August 2016, the Group had aggregate banking facilities of approximately HK$1,534.9 million (29 February 2016: HK$1,967.2 million) for overdrafts, bank loans and trade financing, of which approximately HK$980.4 million (29 February 2016: HK$1,339.4 million) was unutilised as at the same date. These facilities are mainly secured by corporate guarantees provided by the Company and certain subsidiaries.

Charges of Assets

As at 31 August 2016, bank borrowing was secured on land and buildings with a carrying amount of HK$199.9 million (29 February 2016: HK$203.1 million).

Contingent Liabilities

As at 31 August 2016, the Group did not have significant contingent liabilities (FY15/16: Nil).

Foreign Exchange

The Group is exposed to foreign exchange risk arising from exposure in the Japanese Yen, Macau Pataca, Pound Sterling, Euro, United States Dollar, New Taiwan Dollar, Chinese Renminbi and Korean Won against the Hong Kong Dollar. Although management monitors the foreign exchange risks of the Group on a regular basis, and may enter into forward exchange contracts and foreign currency swap contracts with major and reputable financial institutions for foreign exchange risk hedging, fluctuations in the value of the Hong Kong Dollar against other currencies could affect our margins and profitability.

Employment, Training and Development

Human resources are our greatest assets, and we regard the personal development of our employees as highly important. As of 31 August 2016, the Group had a total of 6,711 (FY15/16: 6,147) full time employees. The Group invests in regular training and other development courses for employees to enhance their technical and product knowledge as well as management skills. The Group offers competitive remuneration packages to its employees, including basic salary, allowances, insurance, and commission/bonuses.

Future Outlook

As one looks ahead to the rest of the fiscal year and beyond, difficult operating conditions and weakness in consumer appetite are likely to remain the themes across the Group's principal regions, particularly in the Hong Kong segment. The Group is confident, nevertheless, that its multi-faceted business model (which is inherently adaptable and flexible in nature), along with diversified regional exposure, will retain the Group's capacity for resilience amid difficult times. The Group will continue to devote considerable efforts to the delivery of the latest fashion ideas and to further develop its portfolio to operate at a wider product range with the objective of broadening consumer demographics. New fashion concepts and emerging brands make up a pipeline that is already in place and soon to be tactfully launched, both in stores and online, alongside focused marketing initiatives for our loyal and fashion-enthusiastic customers.

With regard to network expansion, the Group intends to remain very prudent about its shop portfolio in Hong Kong in response to the continually rising pressure from rental expenses and staff costs. On the Mainland, it is likely that the Group will continue with the expansion and adhere to a rather strategic approach and be selective during business development, with an emphasis on first- and second-tier cities.

CORPORATE GOVERNANCE

The Company is committed to implementing good corporate governance practices and emphasising on transparency and accountability to its shareholders and stakeholders. In the opinion of the Board, the Company has applied and complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange throughout the six months ended 31 August 2016, except for the deviation as mentioned below.

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Sham Kar Wai currently holds both positions. The Board believes that vesting the roles of both Chairman of the Board and Chief Executive Officer in the same person would allow the Company to be more effective and efficient in developing long term business strategies and execution of business plans.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by the Directors. Upon enquiry by the Company, all Directors have confirmed that, for the six months ended 31 August 2016, they have complied with the required standard set out in the Model Code regarding securities transactions by Directors.

REVIEW OF FINANCIAL INFORMATION

The interim financial report for the six months ended 31 August 2016 has been reviewed by PricewaterhouseCoopers, the Company's independent auditor, whose review report will be included in the interim report to be sent to shareholders.

The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Company and discussed auditing, risk management and internal control and financial reporting matters including the review of the unaudited financial information of the Group and the interim report for the six months ended 31 August 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 31 August 2016, the Company purchased its listed shares on the Stock Exchange as follows:

Date of purchase	Number of shares purchased	Purchase price per share Highest	Purchase price per share Lowest	Total paid
		HK$	HK$	HK$
1 March 2016	494,000	1.88	1.84	916,380

As at 31 August 2016, the total number of issued shares of the Company was 1,211,483,307.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares or the Senior Notes during the six months ended 31 August 2016.

By Order of the Board
Sham Kar Wai
Chairman

Hong Kong, 25 October 2016

As at the date of this announcement, the Board comprises Mr. SHAM Kar Wai, Mr. SHAM Kin Wai and Mr. CHAN Wai Kwan as Executive Directors and Mr. Francis GOUTENMACHER, Dr. WONG Tin Yau, Kelvin, JP and Mr. MAK Wing Sum, Alvin as Independent Non-executive Directors.